5-1-2010

IFRS v. U.S. GAAP: Impact on a Company's Earning and Activities

Linda Li
Pace University

IFRS v. U.S. GAAP: Impact on a company's earning and activities

Linda Li

Graduation Date: December 2009
Major: Accounting

Advisor: Dr. Picheng Lee
Department of Accounting
Lubin School of Business

Précis

For centuries, nations have developed their own accounting language specifically for their country to use in reporting financials. Each country develops different standards in their reporting language to recognize and account for particular items. As companies operate domestically and overseas, reporting in different accounting languages across various jurisdictions becomes problematic for companies. Recently, many international countries have permitted or allowed their domestic companies to use International Financial Reporting Standards (IFRS), an international reporting language, to reduce the problems. However there are some international countries (i.e. United States) that have yet to decide whether to require or permit their domestic companies to use IFRS. In light of recent changes in the business world, should countries conform to and use one accounting language?

This paper examines if companies in all industries and specific industries report higher earnings under IFRS than under United States Generally Accepted Accounting Principles (U.S. GAAP), the accounting language used in the United States. In addition, the activities and items that caused the change in earnings, for particular industries, are also identified and explained in this paper. The findings of this study will be in the interest of United States domestic companies in particular industries. It will help the management anticipate which areas and items require more resources when reporting from U.S. GAAP to IFRS. Based on the results from the analyses in this paper, the impact on specific United States industries' financials can be predicted if companies in the industries use IFRS instead of U.S. GAAP.

In order to properly conduct the analyses for this paper, industries that are common in the United States were selected. After selecting the industries, international firms were chosen from the selected industries based on the list generated by the Edgar database on the Securities and

Exchange Commission of the United States. Through the use of the selected companies in the Edgar database, the selected companies' reconciled net income statement from IFRS to U.S. GAAP for the year 2006 were used for the analyses. In this paper, two methods "U.S. GAAP ROA" and "Millions figure" were introduced and used in analyzing the reconciled income statements of firms. To measure the change in earnings from IFRS to U.S. GAAP, one tailed t-tests were applied to the data from these two methods.

The findings from the analyses in this paper were consistent with the findings from prior studies. Under both "U.S. GAAP ROA" and "Millions figure" methods, there was a change in companies' earnings under the international reporting language and under the United States reporting language for the period between 2004 and 2006. There was no significant change in earnings between IFRS and U.S. GAAP under the "U.S. GAAP ROA" method. Meanwhile, there was a significant change in earnings under the "U.S. GAAP ROA" method. Nevertheless, companies' earnings were higher under IFRS than U.S. GAAP. In addition, the following categories were frequently reconciled by sampled companies during the period between 2004 and 2006: financial instruments, minority interest, pension and post-retirement activities, activities related to share or stock-based compensation and taxes.

The analyses in this paper were conducted with a small sample size. As a result, this study has a high sample risk and limited in scope. If more industries and more companies were selected, this study will help identify which industries will need to spend more resources on which areas when reporting from IFRS to the U.S. GAAP. Nevertheless, this study is a general overview of the effects on companies' earnings, from specific industries, when reporting from IFRS to U.S. GAAP.

Table of Contents

List of Tables

Introduction

For centuries, nations have developed their own system of accounting principles, which is commonly known as an accounting framework or Generally Accepted Accounting Principles (GAAP), to be used in their country. Each country develops different standards to recognize particular items in accounting, which causes accounting "frameworks" to vary from country to country. As companies operate beyond the borders of their home country, and investors invest in both domestic and foreign companies, the use of different accounting frameworks across various jurisdictions becomes problematic for both companies and investors. Duplication of records, loss of resources and confusion are the result. In light of recent changes in the business world, should countries abdicate their accounting framework in the sake of using one framework to reduce problems and permit companies to be effective yet efficient?

Currently, there are two accounting frameworks used by many countries and companies, which are United States Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). Companies in the United States (U.S.) are required to use U.S. GAAP, which is an accounting framework to report their financials. Meanwhile, IFRS is an international accounting framework developed the International Accounting Standards Board (IASB), which is an international group that was formed to create an accounting framework to be accepted by many countries (IASB, 2008). IFRS is now widely accepted by more than 100 international countries. These international countries have permitted or required their domestic companies to adopt and prepare their financials under IFRS in total (IASB, 2008). For instance, companies in the European Union member states are required to report their financials under IFRS beginning on and after January 1, 2005 based on a 2002 regulation passed by the European Union (European Commission, 2002). Meanwhile, many other international countries are working towards in either requiring or allowing their domestic companies to use IFRS. However there are a few international countries including the U.S. that have yet to decide whether to permit or require U.S. companies to use IFRS instead of U.S. GAAP.

Contributions

This paper has three purposes. The first purpose is to determine if companies in all industries and if specific industries reported a higher earning under IFRS than under U.S. GAAP during the period between 2004 and 2006. Prior studies including Henry, Lin and Yang (2009) discovered that an international company reports a higher earning under the use of IFRS than under U.S. GAAP in general. The second purpose of this paper is to identify the frequently used reconciliation items in specific industries through the use of international companies' reconciled earnings from IFRS to U.S. GAAP in those industries. Unlike prior studies, this study focuses on the reconciled earnings of specific industry companies from IFRS to U.S. GAAP. In other words, how will reporting in IFRS affect a company's income in a particular industry is the focus of this paper. Based on the results from the analyses in this paper, the impact on specific U.S. industries' financials can be predicted if companies in the industries use IFRS instead of U.S. GAAP, which is the third purpose of this paper.

The findings of this study will be in the interest of U.S. companies in particular industries. It will help the management anticipate which areas and items require more resources when reconciling from U.S. GAAP to IFRS. By identifying the areas and items to be reconciled, the management can create a plan in how to smoothly transition the company from U.S. GAAP to IFRS. Thus, this study is in the interest of the U.S. domestic companies.

Literature review

On an annual basis, a company is required to file their annual financial report in accordance with their local GAAP in their home country. For instance, U.S. companies must file their annual financial report in the form of a 10-K with the Securities and Exchange Commission (SEC) of the U.S. (Hughes, 2007, 139). If a company trades in another country's market, the company must also file their annual financial report with the financial governing body of that country. The company's annual financial report must also be in accordance with the local GAAP of that country they trade in. For example, if a foreign company trades in the U.S., which is also known as an international company or a non-U.S. issuer, the non-U.S. issuer is required to file their annual financial report in the 20-F reconciliation form with the SEC (Hughes, 2007, 139). Non-U.S. issuers have the choice of reporting their financials in U.S. GAAP or their home country's local GAAP in the 20-F form with the SEC. If the company used their home country's local GAAP in the 20-F form, then the company must reconcile their financials to U.S. GAAP and provide appropriate disclosures to the reconciled line items (SEC a, 2007). In 2007, the SEC proposed a rule to eliminate the reconciliation requirement for non-U.S. issuing companies if companies report under IFRS. In other words, a non-U.S. issuer will not be required to provide reconciliations of their financials to U.S. GAAP in the U.S. only if the company reports under IFRS. By late 2007, the SEC approved this proposed rule. In the final ruling, the SEC noted that the rule was approved to promote the conformity between U.S. GAAP and IFRS (SEC a, 2007).

On August 27, 2008, the SEC proposed a roadmap in leading the U.S. to the use of IFRS. According to the proposed roadmap, there are several phases, if achieved, can lead the U.S. to adopt IFRS in the near future (SEC b, 2008). As stated in the roadmap, some of the U.S. public companies can change reporting from U.S. GAAP to IFRS as early as 2010 (SEC b, 2008). A U.S. company is eligible for the adoption only if the public company's industry uses IFRS more than other accounting frameworks. By 2011, the SEC will decide whether U.S. reporting companies will use IFRS instead of U.S. GAAP.

Hypothesis

After reviewing the literature (i.e. Henry, Lin and Yang, 2009) and studies (i.e. Pijper, 2008) conducted by other scholars and organizations, companies' earnings reported under IFRS were higher than the earnings reported under U.S. GAAP. For the purpose of this paper, non-U.S. issuers will report a much higher profit under IFRS than under U.S. GAAP. In other words, there will be a significant deviation between IFRS and U.S. GAAP reconciled earnings. Prior studies also found that line items including pension, taxes and goodwill were frequently used by foreign companies when reconciling from IFRS to U.S. GAAP. This study will identify what reconciliation items will be frequently used by companies in general and in specific industries.

Research design: Selection of firms

To properly address the questions in this paper, international firms from U.S. major or common industries were needed. A list of U.S. major or common industries can be found on the U.S. Central Intelligence Agency's world fact book. The list of U.S. common and major industries were checked against the Standard Industrial Classification (SIC) list of codes, which was found on the SEC's Edgar search database main webpage, to determine the industries' SIC codes. The industries' SIC codes were crucial because it was used to generate a list of firms for the particular industries from the SEC Edgar database. Using the list of firms from the database, possible firms were selected to be part of the sample in this paper.

Firms were selected based on their state or country filing code in the particular industry's list of firms. Only firms with international state or country filing codes were selected for this paper. In other words, firms used in the sample must be international. The selected non-U.S. issuers must file their 20-F reconciliation form with the SEC for the year of 2006. Reconciliation forms for the firms can be found either in the Edgar database of the SEC or on the firms' websites. These firms may have filed their 20-F during 2006 or later years with the SEC. In addition, the sampled firms must use IFRS as their reporting basis and have reconciled their IFRS statement of profit and loss in accordance with U.S. GAAP in their 20-F. Four industries with a total of eighteen firms were selected as the sample for this paper. The industries selected were pharmaceutical preparations, commercial banks, telecommunications without radio telephones and crude petroleum and natural gas. There were five non-U.S. issuing companies chosen for each of the selected industry except the crude petroleum and natural gas industry (See Appendix A-1). Many of the companies in the crude petroleum and natural gas industry did not report their financials under IFRS; thus, only three firms in this industry were selected to be sampled.

Research methodology

Within the reconciliation form for the year of 2006, many of the firms have reconciled their IFRS statement of profit and loss in accordance with U.S. GAAP for the years of 2004, 2005 and 2006. The firm's 2004 reconciled financial statement may not be available in some instances such as the pharmaceutical preparations companies sampled in this paper. The reconciled statements were copied onto a spreadsheet to be translated into a common currency for comparability purposes. For the interest of the U.S. domestic companies, the U.S. dollar will be the common currency used in this study. The foreign currency exchange rates for the U.S.

dollar between 2004 and 2006 were used to convert the companies reported reconciled amounts to U.S. dollars (See Appendix A-2). These new translated numbers in U.S. dollars will be referred to as "reconciled amounts in U.S. dollars" throughout this paper.

The firms' reconciled line items and the corresponding reconciled amounts in U.S. dollars were then grouped or consolidated into a single line item to reduce the number of reconciliation line items in the spreadsheet. For example, if companies A and B reported pension as a line item in their reconciliation forms. There will be one pension line item in the spreadsheet. After the grouping and consolidating the line items, the reconciled line items and its reconciled amounts in U.S. dollars were sorted by industries to be used in the methods mentioned below to answer the questions posed in this paper.

Two methods were used in this paper to determine if a company reported a lower or higher earning under IFRS than under U.S. GAAP and to identify the frequent reconciled line items used in the sampled industries. Assuming that reconciled line items were caused by firm's assets, using the return on assets (ROA) formula would be appropriate to measure the change of earnings between IFRS and U.S. GAAP. The ROA formula was modified in this paper and will be referred to as the "U.S. GAAP ROA" method throughout this paper. Like ROA, the "U.S. GAAP ROA" method used the firms' total assets for the years between 2004 and 2006 (see Table 1). However under "U.S. GAAP ROA" method, the firms' total assets must be reconciled to U.S. GAAP and translated into U.S. dollars. To determine each firm's "U.S. GAAP ROA", the firm's reconciled amounts in U.S. dollars in the particular year were divided by the firm's total assets in U.S. dollars for that year. In other words, this method was applied to IFRS and U.S. GAAP earnings and the amounts in the reconciled line items. This method was also applied to every sampled firm during the period between 2004 and 2006 except for those firms who did not provide their 2004 information in their reconciliation forms.

Table 1
Sample Firms' U.S. GAAP Total Assets for the Period Between 2004 to 2006

			Year end total assets under U.S. GAAP in millions U.S. dollars		
Company	Industry Type	Industry SIC	2006	2005	2004
PetroChina Co Ltd	Crude petroleum & natural gas	1311	107,541.9694	94,445.9344	73,008.0850
Total SA	Crude petroleum & natural gas	1311	174,598.4944	175,120.4969	151,847.2050
Eni Spa	Crude petroleum & natural gas	1311	107,661.2296	103,077.0186	89,880.7453
Protherics Plc	Pharmaceutical preparations	2834	98.8051	63.2218	50.2381
Novogen Ltd	Pharmaceutical preparations	2834	38.4485	51.4367	56.9213
Prana Biotechnology Ltd	Pharmaceutical preparations	2834	7.8413	16.9887	25.1454
Chemgenex Pharmaceuticals Ltd	Pharmaceutical preparations	2834	12.0722	7.4070	1.6559
Elan Corp Plc	Pharmaceutical preparations	2834	2,302.0000	2,340.0000	2,975.0000
Telefonica S A	Telephone communications (No radio telephone)	4813	141,698.8708	95,214.9068	77,585.0932
Koninklijke KPN N V	Telephone communications (No radio telephone)	4813	26,967.3777	28,800.0000	29,973.9130
National Telephone Co of Venezuela	Telephone communications (No radio telephone)	4813	4,273.4046	3,505.9887	3,427.6340
Eircom Ltd	Telephone communications (No radio telephone)	4813	5,169.3852	4,643.4783	4,893.1677
Telecom Corp of New Zealand Ltd	Telephone communications (No radio telephone)	4813	3,962.4109	6,123.8564	6,080.8482
ABN Amro Holding N V	Commercial banks, NEC	6029	1,227,234.6299	1,088,653.4161	900,834.7826
Allied Irish Banks Plc	Commercial banks, NEC	6029	198,585.9473	166,732.9193	124,537.8882
Lloyds Banking Group Plc	Commercial banks, NEC	6029	625,376.8382	556,212.7273	515,747.2527
Barclays Bank Plc	Commercial banks, NEC	6029	1,705,987.1324	1,528,467.2727	1,198,864.4689
Royal Bank of Scotland Group Plc	Commercial banks, NEC	6029	1,416,939.3382	1,273,429.0909	1,155,860.8059

The second method was a comparison of the firms' reconciled amounts in U.S. dollars between IFRS and U.S. GAAP in millions. This method will be referred to as "millions figure" throughout this paper. Sixteen of the selected firms reported their financials in millions; thus, the reconciled financials should be in millions of U.S. dollars for this comparison study. The sampled three firms that reported their financials in thousands, their reconciled amounts in U.S. dollars were divided by a million. This method was applied to IFRS and U.S. GAAP earnings and the amounts in the reconciled line items.

One-tailed t-tests, a type of statistical testing, were used for both "U.S. GAAP ROA" and "millions figure" methods to determine if there were any significant change between the earnings under both IFRS and U.S. GAAP during the period between 2004 and 2006. To generate the t-tests, the "t test tool" in Microsoft Excel was used. Two t-tests were conducted to determine if there was an overall change in earnings between IFRS and U.S. GAAP under both "U.S. GAAP ROA" and "millions figure" methods and which accounting framework improved companies' earnings. For every sampled industry, two t-tests were conducted for both methods. To measure the change between IFRS and U.S. GAAP in the t-test, the significance level of change was set at .05. If the result was higher than .05, the change of earnings between IFRS and U.S. GAAP was relatively small. Meanwhile, the change in earnings was considered to be significant if the change was lower than .05 as prescribed in this paper. In total, there were ten individual one tailed t-tests conducted.

Besides determining if there was a change in earnings between IFRS and U.S. GAAP, the two methods "U.S. GAAP ROA" and "millions figure" were also used in identifying the reconciliation items frequently used by these firms. When the methods were applied, the conversion had caused some of the sample firms' reconciled line items to be insignificant, which were line items less than .0001. As a result, the methods eliminated line items that had minor impact on the change in earnings between IFRS and U.S. GAAP.

Findings

As mentioned before, two methods were used to determine if a company's earning is reported higher under IFRS than under U.S. GAAP. The first method "U.S. GAAP ROA" calculated the sampled firms' net income or loss in U.S. dollars over the firm's total assets under U.S. GAAP in U.S. dollars for all the years during the period from 2004 to 2006. In total, there were 47 “U.S. GAAP ROA” data points used in the one- tailed t test. As mentioned before, the significance level of change in the one tailed t test was set at .05 to measure the change between IFRS and U.S. GAAP. Using the “U.S. GAAP ROA” method, the change in earnings between IFRS and U.S. GAAP was immaterial. The change was .09094 (see Table 2: Panel A), which surpassed the determined significant level in this analysis. In other words, a company’s earning under IFRS was .09094 times higher than its earning under U.S. GAAP during 2004 to 2006. It was a minor increase in earnings when a company reported from U.S. GAAP to IFRS during the period between 2004 and 2006. The findings from this method are inconsistent with this paper’s hypothesis.

Table 2: Panel A
U.S. GAAP ROA One Tailed T-Test for the Period Between 2004 to 2006

In U.S. dollars	**IFRS**	**U.S. GAAP**
Mean	-0.035669196	-0.049290137
Variance	0.059235979	0.058916544
Observations	47	47
Hypothesized Mean Difference	0	
Df	46	
t Stat	1.355483545	
P(T<=t) one-tail	0.090940943	
t Critical one-tail	1.678660414	

Unlike “U.S. GAAP ROA” method, findings from the “millions figure” were consistent with the hypothesis of this paper. There was a significant deviation between IFRS and U.S. GAAP under the “millions figure” method during the period between 2004 and 2006. This method was based on the companies’ earnings that were translated into millions of U.S. dollars between 2004 and 2006. In total, there were 47 data points of earnings in millions of U.S. dollars used in the one tailed t test. Like the “U.S. GAAP ROA” method, the significance level of change was also set at .05 for the t test. The change between IFRS and U.S. GAAP was .00019 (see Table 2: Panel B), which meant that the sampled companies reported a much higher earnings from IFRS than in U.S. GAAP during 2004 to 2006. When the sampled company reconciled their earning under IFRS to U.S. GAAP, their earning were lowered. In other words, IFRS reporting standards improved the company's earning dramatically, whereas U.S. GAAP reported company's earning conservatively.

Table 2: Panel B
Millions Figure One Tailed T-Test for the Period Between 2004 to 2006

In Millions of U.S. dollars	IFRS	U.S. GAAP
Mean	4577.927767	4086.187904
Variance	27417405.62	25107747.62
Observations	47	47
Hypothesized Mean Difference	0	
Df	46	
t Stat	3.840633636	
P(T<=t) one-tail	0.000186876	
t Critical one-tail	1.678660414	

Both methods presented different results in terms of earning deviation levels, which is possible because "U.S. GAAP ROA" method used a denominator base as oppose to the "millions figure" method. Despite the different results from the two methods, the sampled companies reported higher earnings under IFRS than under U.S. GAAP. This finding was consistent with the results from prior studies. According to Moody's survey (Pijpers, 2008), their sampled U.S. GAAP reporting companies reported higher earnings in IFRS than in U.S GAAP. In addition, Henry, Lin and Yang (2009) found that their sampled firms reported a five percent increase in net income under IFRS than under U.S. GAAP. Regardless of the various percentage changes in earnings from prior studies, the underlying theme between the prior studies and this study is that a company's earning will be higher under IFRS than under U.S. GAAP in general.

On the industry level, each of the sampled industry that the sampled firms participate in reported higher earnings under IFRS than under U.S. GAAP during the period between 2004 and 2006. According to t-tests, there were no significant differences in earnings between IFRS and

U.S. GAAP for all the industries except the commercial bank industry (see Tables 3 to Tables 6). According to the commercial bank industry's t-tests, the change in earnings between IFRS and U.S. GAP is material. This means that earnings under IFRS were farther part from the earnings under U.S. GAAP. In other words, U.S. GAAP was more conservative in reporting the earnings of the commercial banks than IFRS. Meanwhile, earnings under IFRS were similar to earnings under U.S. GAAP in the other sampled industries.

Table 3

One Tailed T -Test for the Period Between 2004 to 2006: Telecommunications without Radio Telephones Industry

	U.S. GAAP ROA		**Millions Figure**	
In U.S. dollars	**IFRS**	**U.S. GAAP**	**IFRS***	**U.S. GAAP***
Mean	0.051360452	0.054781978	1988.780855	1858.648393
Variance	0.002378502	0.001533178	6995566.149	5773749.227
Observations^	13	13	13	13
Hypothesized Mean Difference	0		0	
df	12		12	
t Stat	-0.661047179		1.08830577	
P(T<=t) one-tail	0.260535918		0.148917492	
t Critical one-tail	1.782287548		1.782287548	

* In millions

^Telecom's & Eircom's 2004 data were not available

Table 4

One Tailed T -Test for the Period Between 2004 to 2006: Commercial Bank Industry

	U.S. GAAP ROA		**Millions Figure**	
In U.S. dollars	**IFRS**	**U.S. GAAP**	**IFRS***	**U.S. GAAP***
Mean	0.006421075	0.00513014	4379.0501	3516.957177
Variance	1.20763E-05	1.0156E-05	3662551	3358491.319
Observations	15	15	15	15
Hypothesized Mean Difference	0		0	
Df	14		14	
T Stat	3.911309355		4.8557262	
P(T<=t) one-tail	0.000783251		0.0001273	
T Critical one-tail	1.761310115		1.7613101	

* In millions

Table 5

One Tailed T -Test for the Period Between 2004 to 2006: Pharmaceutical Preparations Industry

	U.S. GAAP ROA		Millions Figure	
	IFRS	U.S. GAAP	IFRS*	U.S. GAAP*
Mean	-0.354408538	-0.41538512	13.06527418	-73.88632325
Variance	0.146181416	0.100121276	60116.76206	18354.15871
Observations^	10	10	10	10
Hypothesized Mean Difference	0		0	
df	9		9	
t Stat	1.348028555		0.852473989	
P(T<=t) one-tail	0.105297767		0.20802968	
t Critical one-tail	1.833112923		1.833112923	

* In millions

^ 2004 information were not available for the sampled pharmaceutical companies

Table 6

One Tailed T -Test for the Period Between 2004 to 2006: Crude Petroleum and Natural Gas Industry

	U.S. GAAP ROA		Millions Figure	
In U.S. dollars	IFRS	U.S. GAAP	IFRS*	U.S. GAAP*
Mean	0.122625684	0.116455217	13721.339	12874.76755
Variance	0.001751272	0.002225446	9612318.4	12613436.8
Observations	9	9	9	9
Hypothesized Mean Difference	0		0	
df	8		8	
t Stat	1.671734458		1.6425032	
P(T<=t) one-tail	0.066559599		0.0695555	
t Critical one-tail	1.859548033		1.859548	

* In millions

The two methods “U.S. GAAP ROA” and “millions figure” were also used to identify the common reconciliation line items used by companies generally and in specific industries. At times, reconciliation line item names varied. Depending on each firm, items were either separated or combined when firms reported their reconciled activities in their reconciliation forms. For example, some firms reported separate line items for derivatives and financial instruments. Meanwhile, derivatives are types of financial instruments. For this paper, derivatives and financial instruments are considered to be separate reconciliation line items.

Despite these nuances, prior studies including Henry, Lin and Yang (2009) and Moody's (Pijper, 2008) have found that pension, taxes and goodwill were frequently reconciled by companies, as a general rule. Besides these line items, Ernst & Young (Callaghan, Treacy, 2007) also identified the following as common differences between IFRS and U.S. GAAP: business combinations, minority interests, activities related to financial instruments, and share based payment. The results from the research conducted in this paper were consistent with the findings from the mentioned studies. Overall, financial instruments, minority interest, pension and post retirement activities, activities related to share or stock based compensation, taxes and other were frequently reconciled by sampled companies during the period of 2004 to 2006. Through the use of both "U.S. GAAP ROA" and "millions figure methods", the following items have also contributed to the deviation of a company's earning between IFRS and U.S. GAAP: derivatives, goodwill and revaluations of assets.

On the industry level, there were a few common reconciliation line items shared between the sampled industries. Between 2004 and 2006, the sampled commercial banks (see Table 8) and crude petroleum and natural gas firms (see Table 10) frequently used the line item called "other" in their reconciliation forms. For instance, ABN Amro Holding N V (2007) listed an item called "other fair value difference" under "other" without a disclosure note. "Other" is a broad category, which encompasses many miscellaneous organizational items; thus, disclosures were not provided for this line item in these firms' reconciliation forms. Meanwhile, the sampled telecommunications without radio telephones (see Table 7) companies and commercial banks (see Table 8) frequently reconciled their activities related to pension, post-retirement, derivatives and financial instruments. Pension and post-retirement activities were amortized differently as a result of the different methods prescribed by both IFRS and U.S. GAAP. As

Telefonica S A (2007) stated in note 11 of their reconciliation form, both IFRS and U.S. GAAP provided different amortization methodologies. In IFRS, the prior service costs related to pension plans and post-retirement benefits were amortized over the benefit's vesting period (Telefonica S A, 2007). Meanwhile, the prior service costs were amortized over the remaining life expectancy of inactive plan participants and over the remaining service period in U.S. GAAP. According to Allied Irish Bank Plc's (2007) reconciliation note 53g, companies amortized pension and post-retirement benefit plans differently (i.e. the gains and losses from the plans were presented differently under IFRS and U.S. GAAP). As stated in note 53g, the gains and losses were recognized in the equity section under IFRS (Allied Irish Bank Plc, 2007). Meanwhile, under U.S. GAAP, the gains and losses were recognized in the income statement. Both IFRS and U.S. GAAP recognized these activities differently, which caused the sampled commercial banks and crude petroleum and natural gas firms to frequently reconcile these items.

As mentioned previously, sampled commercial banks and telecommunication (without radio telephone) companies also reconciled their derivatives the most during the period between 2004 and 2006. Both IFRS and U.S. GAAP defined the terms "hedge relationship" and "derivatives" differently from each other. As Telefonica S A (2007) stated in note 10 of their reconciliation form, IAS 39 and SFAS No. 133 provided different definitions on a hedging relationship. IAS 39 and SFAS No. 133 are standards relating to the recognition and measurement of financial instruments from IFRS and U.S. GAAP respectively. With different definitions and recognition methods of derivatives and financial instruments, firms in both commercial bank and telecommunications without radio telephone industries to reconcile their derivatives from IFRS to U.S. GAAP. Besides the differences in the standards, a company's

Table 7

Firms in Telecommunications without Radio Telephones Industry

Panel A: U.S. GAAP ROA Method	Telefonica S A			Telecom Corp of New Zealand Ltd		Koninklijke KPN N V			National Telephone Co of Venezuela			Eircom Ltd	
In U.S. Dollars	**2006**	**2005**	**2004**	**2006**	**2005**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**
Profit for the year under IFRS	0.0583	0.0630	0.0558	(0.0711)	0.1111	0.0737	0.0620	0.0707	0.1231	0.0290	0.0659	0.0126	0.0137
U.S. Adjustments													
Adjustments for equity investees under U.S. GAAP	(0.0001)												
Amortization			0.0005			(0.0032)	(0.0043)	(0.0050)					
Available-for-sale financial assets							(0.0018)						
Business combinations,goodwill and intangible assets	(0.0009)	(0.0011)	(0.0182)										
Capacity sales				0.0003	0.0002								
Capitalization interest	(0.0003)	(0.0005)	(0.0013)			(0.0008)	(0.0006)	0.0170	(0.0007)	(0.0011)	(0.0002)		
Consolidation of Southern Cross				0.0049	(0.0024)								
Cumulative effect of change in accounting principle		(0.0016)	(0.0006)										
Debt issue costs												(0.0002)	(0.0002)
Deconsolidation of Southern Cross				0.0860									
Deferred income taxes									(0.0001)	(0.0003)	(0.0001)		
Depreciation of interest costs capitalised in prior years				(0.0003)	(0.0005)								
Development costs	(0.0002)	0.0003	0.0001										
Effect of inflation upon adoption of IFRS	0.0012	0.0014	0.0017										
Effect on minority interests	(0.0003)	(0.0002)	0.0113										
Employee and reorganization provisions								(0.0007)					
Financial instruments	(0.0006)	(0.0020)	(0.0035)	(0.0209)	0.0044	(0.0001)	0.0006	0.0027				0.0011	(0.0033)
Fixed asset valuation						0.0032	0.0011	0.0027					
Foundation PVKPN						0.0000	(0.0000)	0.0002					
Goodwill						0.0055	0.0007	0.0003					
Government grants				0.0002	0.0001								
Impairment				(0.0193)		(0.0002)	0.0049	(0.0014)	0.0000			(0.0002)	
Intangible assets												(0.0017)	(0.0019)
Investments grant to replace WIR allowances						0.0002	0.0002	0.0003					
Minority interest	(0.0031)	(0.0050)	(0.0050)			0.0009	0.0004	0.0003	(0.0003)	(0.0001)	(0.0003)		
Net deferred taxes on U.S. GAAP adjustments												(0.0014)	
Onerous contracts												0.0015	
Other adjustments			(0.0004)										
Pension plan and other postretirement benefits	0.0008	(0.0020)	0.0007			0.0019	(0.0034)	0.0007	0.0010	0.0020	0.0005	(0.0003)	0.0007
Provisions					0.0007								(0.0014)
Realized cumulative translation differences						(0.0007)	0.0001	0.0009					
Recognition of tax credits in period initially awarded			(0.0032)										
Repayment of associate advance				0.0033									
Revaluations												0.0014	0.0007
Reversal of net effect of revaluation of fixed assets and related accumulated depreciation	0.0004	0.0007	0.0010										
Sale and leaseback		0.0001	0.0001										
Share options													(0.0002)
Tax effect of adjustments	0.0005	0.0003	(0.0002)	0.0070	(0.0013)	(0.0073)		(0.0024)					
Temporary impairments	0.0005	0.0010	0.0014										
Total adjustments	(0.0021)	(0.0089)	(0.0150)	0.0612	0.0013	(0.0007)	(0.0019)	0.0156	(0.0001)	0.0006	(0.0001)	0.0003	(0.0055)
Net income (loss) under U.S. GAAP	0.0561	0.0541	0.0408	(0.0100)	0.1124	0.0730	0.0601	0.0863	0.1230	0.0295	0.0657	0.0130	0.0081

Table 7

Firms in Telecommunications without Radio Telephones Industry

Panel B: Millions Figure Method	Telefonica S A			Telecom Corp of New Zealand Ltd		Koninklijke KPN N V			National Telephone Co of Venezuela			Eircom Ltd	
In Millions of U.S. Dollars	**2006**	**2005**	**2004**	**2006**	**2005**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**
Profit for the year under IFRS	8,254.7051	5,996.2733	4,330.4348	(281.9183)	680.5067	1,986.1982	1,785.0932	2,120.4969	525.9919	101.5882	225.8322	65.3540	63.5950
U.S. GAAP Adjustments													
Adjustments for equity investees under U.S. GAAP	(7.5282)	(32.2981)	24.8447										
Amortization			38.5093			(86.5747)	(122.9814)	(149.0683)					
Available-for-sale financial assets							(50.9317)						
Business combinations, goodwill and intangible assets	(132.9987)	(106.8323)	(1,409.9379)										
Capacity sales				1.2962	1.4075								
Capitalization interest	(48.9335)	(52.1739)	(98.1366)			(22.5847)	(18.6335)	508.0745	(3.1005)	(3.6919)	(0.7513)		
Consolidation of Southern Cross				19.4426	(14.7783)								
Debt issue costs												(0.7970)	(0.8050)
Deconsolidation of Southern Cross				340.8944									
Deferred income taxes									(0.4625)	(1.1220)	(0.3454)		
Depreciation of interest costs capitalised in prior years				(1.2962)	(2.8149)								
Development costs	(25.0941)	28.5714	7.4534										
Effect of inflation upon adoption of IFRS	164.3664	136.6460	134.1615										
Effect on minority interests	(45.1694)	(17.3913)	878.2609										
Employee and reorganization provisions								(21.1180)					
Financial instruments	(89.0841)	(186.3354)	(272.0497)	(82.9553)	26.7417	(3.7641)	18.6335	79.5031				5.5790	(15.2950)
Fixed asset valuation						86.5747	32.2981	81.9876					
Foundation PVKPN						1.2547	(1.2422)	6.2112					
Goodwill						148.0552	21.1180	8.6957					
Government grants				0.6481	0.7037								
Impairment				(76.4744)		(6.2735)	141.6149	(40.9938)				(0.7970)	
Intangible Assets												(8.7670)	(8.8550)
Investments grant to replace WIR allowances						6.2735	6.2112	8.6957					
Minority interest	(434.1280)	(473.2919)	(385.0932)			23.8394	12.4224	9.9379	(1.3750)	(0.2270)	(1.1572)		
Onerous contracts												7.9700	
Other adjustments			(27.3292)										
Net Deferred taxes on U.S. GAAP adjustments												(7.1730)	
Pension Plan and other postretirement benefits	109.1593	(193.7888)	57.1429			50.1882	(96.8944)	21.1180	4.4615	6.9915	1.7678	(1.5940)	3.2200
Provisions					4.2224								(6.4400)
Realized cumulative translation differences						(18.8206)	3.7267	26.0870					
Recognition of tax credits in period initially awarded			(247.2050)										
Repayment of associate advance				12.9618									
Reversal of net effect of revaluation of fixed assets and related accumulated depreciation	61.4806	64.5963	79.5031										
Revaluations												7.1730	3.2200
Sale and leaseback	6.2735	8.6957	11.1801										
Share options													(0.8050)
Tax effect of adjustments	67.7541	32.2981	(18.6335)	27.8678	(7.7410)	(195.7340)		(72.0497)					
Temporary impairments	75.2823	90.6832	109.3168										
Cumulative effect of change in accounting principle		(147.8261)	(48.4472)										
Total adjustments	(298.6198)	(848.4472)	(1,166.4596)	242.3850	7.7410	(17.5659)	(54.6584)	467.0807	(0.4765)	1.9507	(0.4860)	1.5940	(25.7600)
Net income (loss) under U.S. GAAP	7,956.0853	5,147.8261	3,163.9752	(39.5334)	688.2477	1,968.6324	1,730.4348	2,587.5776	525.5154	103.5388	225.3462	66.9480	37.8350

Table 8

Firms in Commerical Bank Industry

Panel A: U.S. GAAP ROA Method	ABN Amro Holding N V			Allied Irish Banks Plc			Royal Bank of Scotland Group Plc			Lloyds Banking Group Plc			Barclays Bank Plc		
In U.S. Dollars	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Profit for the year under IFRS	0.0048	0.0050	0.0053	0.0138	0.0100	0.0115	0.0024	0.0023	0.0023	0.0082	0.0081	0.0085	0.0049	0.0041	0.0050
U.S. GAAP adjustments															
Accounting for investment						(0.0001)									
Acquisition accounting															
Allowance for loan losses	(0.0001)	0.0001	0.0011												
Amortization of customer related intangibles										(0.0004)	(0.0005)	(0.0006)			
Banking and group activities															
Business combinations															
Classification of debt and equity													0.0001	(0.0001)	
Consolidation															0.0001
Cumulative effect of changes in accounting principles (net)												(0.0020)			
Deferred tax effect				0.0004	0.0005	0.0001									
Derivatives	0.0012	(0.0011)	(0.0008)	(0.0022)	(0.0007)	0.0011	(0.0002)	(0.0001)							(0.0006)
Disposal											0.0001				
Extinguishment of liabilities											(0.0006)				
Fair value of securities															0.0001
Fee and cost recognition														0.0001	(0.0003)
Financial instruments		(0.0008)	(0.0007)				0.0001	(0.0002)	(0.0003)				0.0001	(0.0005)	
Foreign exchange differences on available for sale debt securities				0.0029	(0.0026)								0.0004	0.0002	0.0007
Goodwill															
Goodwill and business combinations	(0.0009)	(0.0002)	(0.0013)												
Guarantees															
Hedging													(0.0001)	(0.0002)	
Hedging and financial instruments										0.0002	(0.0004)	(0.0002)			
Impairment															
Implementation timing difference – intangibles															
Insurance				0.0001	(0.0001)	(0.0006)				(0.0013)	(0.0014)	(0.0001)	(0.0001)		(0.0001)
Intangible assets													(0.0001)	(0.0001)	(0.0002)
Lease												(0.0002)	(0.0004)	(0.0002)	
Liabilities and equity				0.0003			0.0001								
Loan impairment				0.0001	0.0010						(0.0010)				
Loan origination				0.0001											(0.0001)
Loans held for sale															
Long-term assurance business															
Mortagage banking activities	(0.0001)		(0.0002)												
Non-financial instruments															
Other	(0.0002)	0.0001	(0.0006)		(0.0001)	(0.0001)				(0.0001)			0.0001	0.0001	0.0001
Pension	(0.0002)	(0.0004)	(0.0001)	(0.0003)	(0.0004)	(0.0003)	(0.0001)	(0.0002)	(0.0001)	(0.0017)	(0.0010)	(0.0005)	(0.0001)	(0.0002)	
Post-retirement benefits															
Preference shares			0.0001												
Private equity investments	0.0001	0.0001	0.0002												
Restructuring provisions	(0.0002)	(0.0002)	0.0004												
Revaluation of property				0.0004			(0.0002)						0.0001		
Sale and leaseback				(0.0027)	(0.0004)										
Securities held for hedging purposes															
Securitisations													(0.0001)	0.0002	
Share based payment		(0.0001)		(0.0002)	0.0001										
Share compensation schemes										0.0001					
Software capitalisation															
Taxes	0.0001	0.0007	0.0003		(0.0001)		0.0002	0.0001	0.0001	0.0007	0.0013	0.0003		0.0003	
Variable interest entities										(0.0005)	(0.0001)				
Total Adjustments	(0.0003)	(0.0017)	(0.0014)	(0.0013)	(0.0028)	0.0003	(0.0003)	(0.0004)	(0.0004)	(0.0029)	(0.0037)	(0.0031)	(0.0003)	(0.0006)	(0.0003)
Net Income (Loss) under U.S. GAAP	0.0046	0.0033	0.0039	0.0125	0.0072	0.0117	0.0021	0.0019	0.0018	0.0053	0.0044	0.0054	0.0047	0.0035	0.0046

Table 8

Firms in Commerical Bank Industry

Panel B: Millions Figure Method	ABN Amro Holding N V			Allied Irish Banks Plc			Royal Bank of Scotland Group Plc			Lloyds Banking Group Plc			Barclays Bank Plc		
In Millions of U.S. Dollars	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Profit for the year under IFRS	5,915.9348	5,443.4783	4,801.2422	2,741.5307	1,668.3230	1,428.5714	3,373.8880	2,965.6000	2,651.3760	5,152.5735	4,532.7273	4,380.9524	8,402.5735	6,267.2727	5,959.7070
U.S. GAAP adjustments															
Accounting for investment				3.7641	4.9689	(11.1801)									
Acquisition accounting									36.0360						
Allowance for loan losses	(72.7729)	122.9814	991.3043												
Amortization of customer related intangibles										(268.3824)	(285.4545)	(287.5458)			
Banking and group activities															
Business combinations															23.8095
Classification of debt and equity													106.6176	(103.6364)	
Consolidation													(60.6618)	(40.0000)	124.5421
Cumulative effect of changes in accounting principles (net)												(1,014.6520)			
Deferred tax effect				82.8105	78.2609	8.6957									0.0000
Derivatives	1,416.5621	(1,155.2795)	(694.4099)	(440.4015)	(111.8012)	140.3727	(246.9760)	(65.4500)	39.8580						(666.6667)
Disposal											32.7273	1.8315	(62.5000)		
Extinguishment of liabilities									(51.3240)		(334.5455)				(58.6081)
Fair value of securities															146.5201
Fee and cost recognition													56.9853	105.4545	(329.6703)
Financial instruments	17.5659	(822.3602)	(621.1180)				106.6240	(305.8000)	(342.8880)				95.5882	(758.1818)	
Foreign exchange differences on available for sale debt securities				577.1644	(437.2671)								641.5441	336.3636	783.8828
Goodwill													(14.7059)		(3.6630)
Goodwill and business combinations	(1,072.7729)	(214.9068)	(1,157.7640)												
Guarantees													(16.5441)	(45.4545)	(18.3150)
Hedging													(139.7059)	(378.1818)	
Hedging and financial instruments										152.5735	(247.2727)	(109.8901)			
Impairment														(43.6364)	
Implementation timing difference – intangibles							(33.7280)	(36.3000)	(51.8700)					0.0000	
Insurance				16.3112	(14.9068)	(72.0497)				(784.9265)	(796.3636)	(64.1026)	(176.4706)	(63.6364)	(173.9927)
Intangible assets												0.0000	(233.4559)	(220.0000)	(250.9158)
Lease							25.0240	(14.3000)	(10.3740)	(11.0294)	21.8182	(78.7546)	(628.6765)	(247.2727)	
Liabilities and equity				51.4429			96.2880	40.7000							
Loan impairment				17.5659	163.9752						(570.9091)				
Loan origination				15.0565	(6.2112)		(49.5040)	30.2500	(46.4100)						(120.8791)
Loans held for sale													(20.2206)		
Long-term assurance business							(6.5280)	5.5000	(9.2820)						
Mortagage banking activities	(67.7541)	1.2422	(172.6708)												
Non-financial instruments													1.8382	32.7273	
Other	(264.7428)	77.0186	(513.0435)	(3.7641)	(13.6646)	(9.9379)	(16.8640)	(32.4500)	(21.8400)	(36.7647)	(25.4545)	9.1575	121.3235	80.0000	98.9011
Pension	(297.3651)	(421.1180)	(110.5590)	(61.4806)	(73.2919)	(36.0248)	(210.5280)	(199.6500)	(154.5180)	(1,060.6618)	(552.7273)	(236.2637)	(194.8529)	(367.2727)	(25.6410)
Post-retirement benefits													(31.2500)	(1.8182)	36.6300
Preference shares	45.1694	44.7205	108.0745												
Private equity investments	112.9235	85.7143	165.2174												
Restructuring provisions	(200.7528)	(272.0497)	381.3665												
Revaluation of property				70.2635	4.9689	2.4845	(255.6800)	(49.5000)	(35.4900)				156.2500	16.3636	20.1465
Sale and leaseback				(533.2497)	(65.8385)		(45.6960)								
Securities held for hedging purposes						6.2112									
Securitisations													(88.2353)	370.9091	38.4615
Share based payment		(90.6832)	36.0248	(45.1694)	19.8758	4.9689									
Share compensation schemes										51.4706	(3.6364)	(10.9890)			
Software capitalisation															(27.4725)
Taxes	65.2447	766.4596	294.4099		(17.3913)	(1.2422)	223.0400	122.6500	131.0400	466.9118	745.4545	168.4982	22.0588	390.9091	(3.6630)
Variable interest entities										(325.3676)	(60.0000)	3.6630			
Total Adjustments	(318.6951)	(1,878.2609)	(1,293.1677)	(249.6863)	(468.3230)	32.2981	(414.5280)	(504.3500)	(517.0620)	(1,816.1765)	(2,076.3636)	(1,619.0476)	(465.0735)	(936.3636)	(406.5934)
Net Income (Loss) under U.S. GAAP	5,597.2396	3,565.2174	3,508.0745	2,491.8444	1,200.0000	1,460.8696	2,959.3600	2,461.2500	2,134.3140	3,336.3971	2,456.3636	2,761.9048	7,937.5000	5,330.9091	5,553.1136

Table 9

Firms in the Pharamaceutical Preparations Industry *

Panel A: U.S. GAAP ROA Method	Novogen Ltd		Prana Biotechnology Ltd		Chemgenex Pharmaceuticals Ltd		Elan Corp Plc		Protherics Plc	
In U.S. Dollars	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Profit for the year under IFRS	(0.3506)	(0.1880)	(1.1122)	(0.4618)	(0.6463)	(0.6416)	(0.1775)	0.2617	(0.1765)	(0.0512)
U.S. GAAP Adjustments										
Athena notes - net charge on debt retirement							0.0049			
Convertible notes							0.0054	(0.4937)	0.0005	
Derivative instruments and hedging activities										(0.0180)
Intangible assets				(0.1526)			0.0326	0.0269		
Marketable securities					(0.0047)	(0.0283)				
Minority interest in net losses of subsidiaries	0.0331	0.0164								
Other							(0.0010)	0.0033	(0.0042)	(0.0012)
Revenue recognition							0.0198	0.0223	(0.0580)	(0.1321)
Share (stock) based compensation	(0.0002)	(0.0010)		0.0761		0.0330	(0.0003)	0.0156	0.0054	(0.0101)
Total Adjustments	0.0330	0.0155		(0.0765)	(0.0047)	0.0047	0.0614	(0.4256)	(0.0562)	(0.1614)
Net profit (loss) under U.S. GAAP	(0.3176)	(0.1725)	(1.1122)	(0.5383)	(0.6510)	(0.6369)	(0.1161)	(0.1639)	(0.2328)	(0.2126)

Panel B: Millions Figure Method	Novogen Ltd		Prana Biotechnology Ltd		Chemgenex Pharmaceuticals Ltd		Elan Corp Plc		Protherics Plc	
In Millions of U.S. Dollars	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Profit for the year under IFRS	(13.4786)	(9.6677)	(8.7213)	(7.8453)	(7.8026)	(4.7524)	(408.7000)	612.3000	(17.4412)	(3.2382)
U.S. GAAP Adjustments										
Athena notes - net charge on debt retirement							11.3000			
Convertible notes							12.5000	(1,155.3000)	0.0515	
Derivative instruments and hedging activities										(1.1382)
Intangible assets				(2.5925)			75.0000	63.0000		
Marketable securities					(0.0562)	(0.2097)				
Minority interest in net losses of subsidiaries	1.2739	0.8453								
Other							(2.2000)	7.7000	(0.4154)	(0.0727)
Revenue recognition							45.6000	52.1000	(5.7298)	(8.3509)
Share (stock) based compensation	(0.0060)	(0.0495)		1.2929		0.2447	(0.8000)	36.6000	0.5368	(0.6400)
Total Adjustments	1.2679	0.7957		(1.2995)	(0.0562)	0.0349	141.4000	(995.9000)	(5.5570)	(10.2018)
Net profit (loss) under U.S. GAAP	(12.2107)	(8.8720)	(8.7213)	(9.1448)	(7.8588)	(4.7175)	(267.3000)	(383.6000)	(22.9982)	(13.4400)

* Reconciled information for year 2004 were not available

Table 10

Firms in Crude Petroleum and Natural Gas Industry

Panel A: U.S. GAAP ROA Method	PetroChina Co Ltd			Total S A			Eni Spa		
In U.S. Dollars	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Profit for the year under IFRS	0.1740	0.1802	0.1779	0.0846	0.0871	0.0889	0.1074	0.1059	0.0976
U.S. GAAP Adjustments									
Assets associated to the acquisition of a company							(0.0001)	(0.0001)	(0.0001)
Business combinations—goodwill and other intangible assets					(0.0010)				
Deferred income taxes							(0.0014)	(0.0034)	(0.0003)
Depreciation	0.0042	0.0082	0.0121						
Effects of changing from IFRS to U.S. GAAP					0.0024			(0.0001)	0.0006
Elimination of asset impairments and revaluations							0.0004		0.0001
Employee benefit obligations				(0.0009)	(0.0013)	(0.0006)			
Equity investees revaluations, net				(0.0001)	0.0018	(0.0174)			
Financial instruments				(0.0016)	(0.0007)	(0.0003)			
Gain on disposal						0.0000	0.0029		
Goodwill on consolidated companies					(0.0054)	(0.0111)			
Impairment of assets				(0.0001)	(0.0013)	0.0006			
Loss on disposal of revalued property, plant and equipment	0.0003	0.0006	0.0009						
Minority interest	(0.0100)	(0.0082)	(0.0064)						
Other				0.0001	0.0001	(0.0008)			(0.0039)
Property, plant and equipment revaluation				(0.0026)	(0.0024)	(0.0031)			
Share of income of jointly controlled entities	0.0032								
Stock compensation						0.0005			
Successful-efforts accounting							0.0042	0.0006	(0.0011)
Tax effects	(0.0016)	(0.0029)	(0.0043)	0.0025	0.0033	0.0023			
Trading inventories				0.0001	(0.0002)				
Valuation of inventories							0.0031	(0.0115)	(0.0044)
Total adjustments	(0.0039)	(0.0023)	0.0023	(0.0026)	(0.0048)	(0.0298)	0.0092	(0.0145)	(0.0091)
Net profit in accordance with U.S. GAAP	0.1702	0.1780	0.1802	0.0819	0.0823	0.0591	0.1166	0.0914	0.0885

Table 10

Firms in Crude Petroleum and Natural Gas Industry

Panel B: Millions Figure Method	**PetroChina Co Ltd**			**Total S A**			**Eni Spa**		
In Millions of U.S. Dollars	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Profit for the year under IFRS	18,716.7377	17,023.2842	12,989.7430	14,765.3701	15,245.9627	13,500.6211	11,564.6173	10,916.7702	8,768.9441
U.S. GAAP Adjustments									
Assets associated to the acquisition of a company							(6.2735)	(6.2112)	(6.2112)
Business combinations—goodwill and other intangible assets				(3.7641)	(172.6708)				
Deferred income taxes							(150.5646)	(346.5839)	(26.0870)
Depreciation	454.2721	777.6423	885.7246						
Effects of changing from IFRS to U.S. GAAP					413.6646		3.7641	(11.1801)	50.9317
Elimination of asset impairments and revaluations							45.1694		6.2112
Employee benefit obligations				(149.3099)	(226.0870)	(84.4720)			
Equity investees revaluations (net)				(22.5847)	316.7702	(2,645.9627)			
Financial instruments				(277.2898)	(119.2547)	(39.7516)			
Gain on disposal							316.1857		
Goodwill on consolidated companies					(945.3416)	(1,691.9255)			
Impairment of assets				(8.7829)	(234.7826)	86.9565			
Loss on disposal of revalued property, plant and equipment	35.9559	52.6637	63.1109						
Minority interest	(1,077.4242)	(773.0099)	(466.1518)						
Other				13.8018	13.6646	(124.2236)	(5.0188)	(3.7267)	(347.8261)
Property, plant and equipment revaluation				(457.9674)	(423.6025)	(464.5963)			
Share of income of jointly controlled entities	342.6460	0.2438							
Stock compensation						77.0186			
Successful-efforts accounting							450.4391	58.3851	(101.8634)
Taxes effects	(170.1328)	(274.0461)	(313.1411)	432.8733	571.4286	356.5217			
Trading inventories				11.2923	(33.5404)				
Valuation of inventories							335.0063	(1,187.5776)	(392.5466)
Total adjustments	(414.6830)	(216.5062)	169.5427	(461.7315)	(839.7516)	(4,530.4348)	988.7077	(1,496.8944)	(817.3913)
Net profit in accordance with U.S. GAAP	18,302.0546	16,806.7780	13,159.2856	14,303.6386	14,406.2112	8,970.1863	12,553.3250	9,419.8758	7,951.5528

decision to adopt or not adopt the derivative standards also caused the sampled firms in both industries to reconcile their derivatives and financial instruments from IFRS to U.S. GAAP. For instance, Telecom Corp of New Zealand Ltd (2006) chose to apply IAS 39 standard for their derivatives and financial instruments but did not apply SFAS No. 133 to their derivatives and financial instruments. A company's decision to adopt a standard and the different methods in the standards had caused the sampled firms to reconcile their derivatives frequently.

In the telephone communications without radio telephone industry (see Table 7), the surveyed companies often reconciled minority interests from IFRS to U.S. GAAP. Both IFRS and U.S. GAAP standards recognized minority interest differently. For example, IFRS specified that minority interests were to be included in the stockholder's equity and presented as a separate item in the net income as stated in note 26e of National Telephone of Venezuela's (2007) reconciliation form. Unlike IFRS, minority interest was reported as a separate item between liabilities and stockholder's equity and included as a part of net income in U.S. GAAP. Like National Telephone of Venezula's note, Telefoncia S A (2007) disclosed also a similar note on the presentation of minority interest under IFRS and U.S. GAAP in their reconciliation forms. The different presentations of minority interest under IFRS and U.S. GAAP have caused the telephone companies to frequently reconcile their minority interest.

Along with pension and post-retirement activities, derivatives and financial instruments, insurance was a common reconciled item in the sampled commercial banks as shown in Table 8 of this paper during the period between 2004 and 2006. Insurance contracts and products were treated differently under IFRS and U.S. GAAP according to the banks' disclosures in the reconciliation forms. For instance, Allied Irish Bank Plc's (2007) stated that the present value of future earnings from insurance activities was not recognized under U.S. GAAP. Meanwhile, IFRS recognized the present value of future earnings from insurance contracts as noted in Lloyds Banking Group Plc's (2007) reconciliation form. With different recognition treatments as prescribed by IFRS and U.S. GAAP, commercial banks frequently reconcile their insurance contracts and products

There was no common reconciled item found in the crude petroleum and natural gas industry besides the category "other" as shown in Table 10. As previously mentioned, "other" is a broad miscellaneous category on the reconciliation form. Disclosures were not provided for this line item in Eni Spa's (2007) and other firms' reconciliation forms. Each of the sampled firms reported different reconciled line items from each other in both "U.S. GAAP ROA" and "millions figure" methods. For instance, Total S A (2007) was the only firm to report financial instruments as shown in Table 10. Meanwhile, minority interest was the only reconciled by PetroChina Co Ltd out of the other sampled firms in the industry.

As for the pharmaceutical preparations industry, the sampled firms had the least number of reconciliation items (see Table 9) out of the other companies in the sampled industries. With the least number of reconciliation items, earnings under IFRS were relatively the same as earnings under U.S. GAAP besides the categories including share or stock based compensation, revenue recognition and "other" during the period between 2005 and 2006. Share or stock-based compensation related activities were frequent reconciled items in the pharmaceutical preparations industry. Both IFRS and U.S. GAAP recognized the activities related to share or stock-based compensation differently. Under IFRS, stock-based compensation plans were calculated based on a mathematical formula and recognized over the period that the employee performed related services, as noted in Protherics Plc's (2006) reconciliation form. Unlike IFRS, stock compensation plans were calculated based on the difference between issuance shares' market price and the exercise price under U.S. GAAP (Protherics Plc, 2006); the difference were recognized over the period that the employee performed related services, as noted in Novogen Ltd's (2006), and Prana Biotechnology Ltd's (2007) reconciliation forms. With different recognition methods, the standards caused the firms to frequently reconcile their activities related to stock and share based compensations.

Conclusion

From this study, companies will report a higher earning under IFRS than under U.S. GAAP regardless of the industry that the company is in. In addition, companies will have to reconcile certain company activities more than other organizational activities from IFRS to U.S. GAAP if the SEC does not allow IFRS to be used in the U.S. U.S. and non-U.S. companies in the telecommunication without radio telephones industry will have to use more resources on reconciling their pension and post-retirement activities, derivatives, financial instruments and minority interest from IFRS to U.S. GAAP. In the commercial bank industry, U.S. and non-U.S. issuing banks will have to frequently reconcile the following items from IFRS to U.S. GAAP: pension and post retirement related activities, derivatives, financial instruments and insurance. Meanwhile, U.S. and non-U.S. crude petroleum and natural gas companies will need to reconcile the category "other". U.S. and non-U.S. pharmaceutical preparations companies will have the least number of items to reconcile out of the other sampled industries in this paper. The pharmaceutical preparations companies will reconcile on their share or stock based compensation related activities. By identifying these areas and other activities, financial managers can allocate resources properly when reconciling IFRS to U.S. GAAP if the SEC does not approve of the changeover.

References

ABN Amro Holding N V. (2007, April 2). *20-F*. Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1038727/000095010307000816/0000950103-07-000816-index.htm

Allied Irish Banks Plc. (2007, May 30). *20-F*. Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/850364/000119312507125420/0001193125-07-125420-index.htm

Barclays Bank Plc. (2007, March 26). *20-F*. Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/312070/000119312507063804/0001193125-07-063804-index.htm

Bolt-Lee, C., & Smith, L. (2009). Highlights of IFRS research. *Journal of Accountancy, 208*(5), 48-52.

Callaghan, S., & Treacy, M. (2007, December 1). Towards convergence IFRS to US GAAP differences. *Accountancy Ireland, 39*(6), 10-14. Retrieved from http://web.ebscohost.com.rlib.pace.edu/ehost/detail?vid=3&hid=8&sid=29de19a5-a206-4af5-a8ed-717e107df7da%40sessionmgr14&bdata=JnNpdGU9ZWhvc3QtbGl2ZQ%3d%3d#db=buh&AN=27819784

Chemgenex Pharmaceuticals Ltd. (2006, December 28). *20-F*. Retrieved September 25, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1175965/000110465906084086/0001104659-06-084086-index.htm

CIA. (2009). *CIA: World fact book.* Retrieved September 25, 2009, from Central Intelligence Agency of United States of America CIA: World fact book Web site: https://www.cia.gov/library/publications/the-world-factbook/geos/us.html

Eircom Ltd. (2006, June 30). *20-F*. Retrieved September 26, 2009, from 20-F Web site: http://sec.gov/Archives/edgar/data/1088652/000119312506140184/0001193125-06-140184-index.htm

Elan Corp Plc. (2007, February 28). *2006 20-F*. Retrieved September 26, 2009, from Elan Corp Plc 2006 20-F Web site: http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzQzMzAwfENoaWxkSUQ9MzI5ODk5fFR5cGU9MQ==&t=1

Eni Spa. (2007, June 20). *20-F*. Retrieved September 25, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1002242/000131143507000014/0001311435-07-000014-index.htm

European Commission. (2009). *European Commission: Internal market.* Retrieved November 23, 2009, from European Commission European Commission: Internal market Web site: http://ec.europa.eu/internal_market/accounting/legal_framework/ias_regulation_en.htm

Henry, E., Lin, S., & Yang, Y. (2009). The European-U.S. "GAAP gap": IFRS to U.S. GAAP form 20-F reconciliations. *Accounting Horizons, 23*(2), 121-150. Retrieved from http://proquest.umi.com.rlib.pace.edu/pqdweb?index=0&did=1790255131&SrchMode=2&sid=2&Fmt=4&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1260948924&clientId=2088

Hughes, S. (2007). Using form 20-F reconciliations to internationalize an accounting course. *Journal of accounting education, 25*, 137-151.

IASB. (2008, February). *IFRSs around the world.* Retrieved September 6, 2009, from International Accounting Standards Board IFRSs around the world Web site: http://www.iasb.org/About+Us/About+the+IASB/IFRSs+around+the+world.htm

Koninklijke KPN N V. (2007, March 1). *20-F.* Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1001474/000110465907015506/0001104659-07-015506-index.htm

Langmead, J., & Soroosh, J. (2009). Planning ahead for IFRS 1: Initial adoption of IFRS by companies. *The CPA Journal,* (10), 24-29.

Lloyds Banking Group Plc. (2007, June 8). *20-F.* Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1160106/000093041307005063/0000930413-07-005063-index.htm

National Telephone Co of Venezuela. (2007, May 18). *20-F.* Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1025862/000119312507118821/0001193125-07-118821-index.htm

Novogen Ltd. (2006, November 29). *20-F.* Retrieved September 25, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1075880/000095013306005154/0000950133-06-005154-index.htm

PetroChina Co Ltd. (2007, May 11). *20-F*. Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1108329/000114554907000795/0001145549-07-000795-index.htm

Pijper, T. (2008, November). Are we better off under IFRS? Moody's global corporate finance: Special comment

Prana Biotechnology Ltd. (2007, June 18). *20-F*. Retrieved September 25, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/1131343/000114420407032259/0001144204-07-032259-index.htm

Protherics Plc. (2006, July 31). *20-F*. Retrieved September 25, 2009, from 20-F Web site: http://sec.gov/Archives/edgar/data/945725/000095014406007123/0000950144-06-007123-index.htm

Royal Bank of Scotland Group Plc. (2007, April 24). *20-F*. Retrieved September 26, 2009, from 20-F Web site: http://sec.gov/Archives/edgar/data/844150/000095010307001017/0000950103-07-001017-index.htm

SEC a. (2007, December 21). *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP*. Retrieved October 10, 2009, from SEC Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With Internat Web site: http://www.sec.gov/rules/final/2007/33-8879.pdf

SEC b. (2008, August 27). *SEC proposes roadmap toward global accounting standards to help investors* [Press Release]. Retrieved September 18, 2008, from U.S. Securities and Exchange Commission Press release: SEC proposes roadmap toward global accounting standards to help investors Web site: http://www.sec.gov/news/press/2008/2008-184.htm

Street, D., & Needles, B., Jr. (Eds.). (2009). *IFRS digest: What U.S. practitioners and entities need to know now*. New York: American Institute of Certified Public Accountants, Inc.

Telecom Corp of New Zealand Ltd. (2006, September 25). *20-F*. Retrieved September 26, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/875809/000119312506196113/0001193125-06-196113-index.htm

Telefonica S A. (2007, May 18). *20-F*. Retrieved September 25, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/814052/000095012307007683/0000950123-07-007683-index.htm

Total SA. (2007, April 10). *20-F*. Retrieved September 25, 2009, from U.S. Securities and Exchange Commission 20-F Web site: http://sec.gov/Archives/edgar/data/879764/000119312507077881/0001193125-07-077881-index.htm

Yearly average currency exchange rates. (2009, November 16). Retrieved November 23, 2009, from United States Internal Revenue Service Yearly average currency exchange rates Web site: http://www.irs.gov/businesses/small/international/article/0,,id=206089,00.html

Appendix

A-1: Sampled Firms' Information

A-2: 2004 to 2006 Currency Exchange Rates for U.S. dollars

A-1

Sampled Firms' Information

Company	Industry Type	Industry SIC	Filing Date	Country	Currency	Reported financials in
PetroChina Co Ltd	Crude petroleum & natural gas	1311	5/11/2007	China	RMB	Million
Total SA	Crude petroleum & natural gas	1311	4/10/2007	France	Euro	Million
Eni Spa	Crude petroleum & natural gas	1311	6/20/2007	Italy	Euro	Million
Protherics Plc	Pharmaceutical preparations	2834	7/31/2006	United Kingdom	Pound	Thousands
Novogen Ltd	Pharmaceutical preparations	2834	11/29/2006	Australia	Austrialian dollar	Thousands
Prana Biotechnology Ltd	Pharmaceutical preparations	2834	6/18/2007	Australia	Austrialian dollar	-
Chemgenex Pharmaceuticals Ltd	Pharmaceutical preparations	2834	12/28/2006	Australia	Austrialian dollar	Thousands
Elan Corp Plc	Pharmaceutical preparations	2834	2/28/2007	Ireland	U.S. dollar	Million
Telefonica S A	Telephone communications (No radio telephone)	4813	5/18/2007	Spain	Euro	Million
Koninklijke KPN N V	Telephone communications (No radio telephone)	4813	3/1/2007	Netherlands	Euro	Million
National Telephone Co of Venezuela	Telephone communications (No radio telephone)	4813	5/18/2007	Venezuela	Bolívar	Million
Eircom Ltd	Telephone communications (No radio telephone)	4813	6/30/2006	United Kingdom	Euro	Million
Telecom Corp of New Zealand Ltd	Telephone communications (No radio telephone)	4813	9/25/2006	New Zealand	New Zealand dollar	Million
ABN Amro Holding N V	Commercial banks, NEC	6029	4/2/2007	Netherlands	Euro	Million
Allied Irish Banks Plc	Commercial banks, NEC	6029	5/30/2007	Ireland	Euro	Million
Lloyds Banking Group Plc	Commercial banks, NEC	6029	6/8/2007	Scotland	Pound	Million
Barclays Bank Plc	Commercial banks, NEC	6029	3/26/2007	England	Pound	Million
Royal Bank of Scotland Group Plc	Commercial banks, NEC	6029	4/24/2007	United Kingdom	Pound	Million

Source: Listed firms' 2006 reconciliation forms

A-2

2004 to 2006 Currency Exchange Rates for U.S. Dollars				
Country	**Currency**	**2006**	**2005**	**2004**
Australia	Dollar	1.329	1.312	1.360
China	Yuan	7.982	8.203	8.287
Euro Zone	Euro	0.797	0.805	0.805
New Zealand	Dollar	1.543	1.421	1.509
United Kingdom	Pound	0.544	0.550	0.546
Venezuela	Bolivar	2149.035	2110.561	1884.780

Source: Internal Revenue Service of United States